

State of Tennessee
401(k) and 457 Plans

RETIREMENT & INVESTMENT GUIDE

Helping you grow into retirement

Purchased first savings bond

Graduated from high school

Started saving for retirement


Received big promotion

Birth of first child

Retired comfortably



Great-West
RETIREMENT SERVICES®



Along with minerals, sunshine and carbon dioxide, a mature oak tree needs up to 50 gallons of water a day to survive. In a similar fashion, your retirement nest egg requires frequent contributions in order to grow and help support you through your retirement years. By saving early and often, you can help reduce the risk of stunting its growth.

WELCOME TO YOUR DEFERRED COMPENSATION PLAN
PROVIDED BY:
State of Tennessee

DEAR EMPLOYEE:

Unpredictability—it's the one thing about the future we can all agree on.

But while it's true that none of us can see the future, we can take steps to prepare for it. Your Retirement Plan is a tool that can help you manage unpredictability. It can help you plan for a future that may be a long way away but will be here sooner than you think.

It's a simple equation: What you do today affects how you will live tomorrow. Your Retirement Plan can help you turn that equation in your favor. This guide will start you on the journey toward planning the retirement you want. It outlines the compelling reasons why you should invest and introduces you to the resources and information available from your Plan that can help you make the decisions that are right for you.

We're looking forward to sharing the journey with you.

Sincerely,

State of Tennessee
Dale Sims, Treasurer

START PLANTING THE SEEDS FOR YOUR RETIREMENT

Quick and easy enrollment.

A few simple steps and you're on your way to investing in your Plan.

Investments.

Your Plan offers a diverse array of investment options. Review the investment option information located in this guide or online via the Plan Web site.¹

Convenient account management.

Detailed Plan and account information and the flexibility to make changes are available online or through the automated voice response system.¹

Ready to enroll?

Contact your Plan administrator to find out which of the following ways you may enroll. Follow these three easy steps:

Paper Enrollment

Step 1:

Fill out the enrollment form available from your Human Resources department or from your Plan's Web site.

Step 2:

Deliver the completed form to a Great-West Retirement Services® representative or mail the form as instructed in the Features & Highlights section

Step 3:

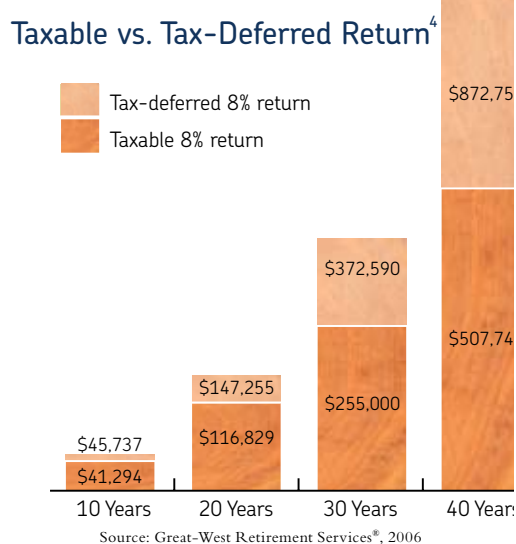
Enjoy the retirement Plan your employer provides for you.

¹ Access to the automated voice response system and Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

TAX-DEFERRED SAVING AND INVESTING

The money you contribute to your Plan comes from your before-tax income, which is set aside in your account where it could grow over time.

The following graph illustrates how a monthly contribution of \$100 could grow in your tax-deferred Plan as compared to the growth of the same amount if invested in a taxable investment, such as a bank account.³



SELF-SERVICE OR FULL-SERVICE

It used to be that you'd go to a gas station and an attendant would fill your tank, check your oil and even clean your windshield. And while the convenience of pay-at-the-pump is nice, there may be times when you'd like to have that full-serve option. The point is that having a choice is a good thing.

Your Plan offers multiple ways to get the information you need in the way that is most comfortable and convenient for you.

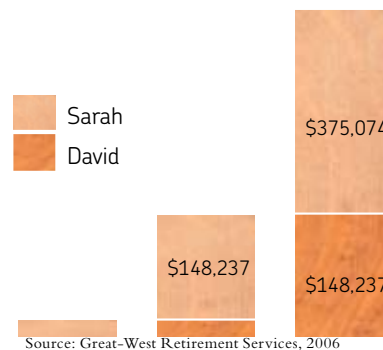
On the phone – Finding the latest information on your Plan and investment options is as easy as calling your Plan's client services number and speaking with a Plan representative.¹

On the Web – You can research your investment options—and even change your investment options—anytime, anywhere with the click of a mouse.¹

In person – Your Plan may offer a full schedule of seminars to help you understand how you can best reach your retirement goals.

INVESTMENT RISK VS. THE RISK OF NOT INVESTING

All investments come with risk. The sooner you start saving and investing, the better your potential to weather changes and recover from losses. Consider this example: Sarah and David plan to retire in 30 years. Sarah starts saving \$100 a month immediately, while David waits 10 years before starting to save. The chart to the right shows what they both would have after 10, 20 and 30 years, assuming a hypothetical 8% annual rate of return, compounded monthly, and no withdrawals.³



³ For illustrative purposes only. These hypothetical illustrations do not represent the performance of any specific investment option, nor do they reflect any charges or fees associated with your Plan. The accumulations shown above would be reduced if these fees had been deducted. These illustrations assume an 8% annual rate of return, compounded monthly, and no withdrawals.

PLANTING THE SEEDS FOR YOUR RETIREMENT SAVINGS STARTS NOW

Most people envision their retirement as a reward for a life of hard work. And it should be.

But experts say you'll need to replace 70% to 80% of your working income for a comfortable retirement. The truth is, saving enough to get to that level takes planning. You can take advantage of the DreamTrackerSM tool that is available on the Web site to help you determine how much you will likely need to save. And then you can use the Paycheck Comparison tool to see how saving that amount will affect your take-home pay.

*Regardless of what your future holds, smart preparation requires good information.
So let's start with some basic facts.*



Did you know:

- In many cases, Social Security benefits will replace only 30% of working income?
- The outlook for Social Security is murky at best? Without changes to the existing system, a person planning to retire in 2041 at age 71 could see a 26% reduction in benefits from current levels—with the potential for additional reductions every year thereafter. Who says so? The Social Security Administration (www.ssa.gov/qa.htm).
- People are living longer? That means the money you set aside will probably have to fund a longer retirement. Then there's inflation. Anyone who buys gasoline or groceries knows that prices will go up over time. If inflation averages just 3% per year, the \$50 in groceries you buy today could cost \$95 at retirement age.

More for your nest egg might mean more in your pocket now.

If you think you can't afford to take money out of your check each month for a retirement you can't even imagine yet, consider this example of saving before tax through the Plan versus after tax through some other savings vehicle.²

	Before-Tax Contribution	After-Tax Contribution
Gross Pay	\$2,000	\$2,000
Minus Before-Tax Contributions to Savings Plan	-\$100	-\$0
Taxable Pay	\$1,900	\$2,000
Minus Estimated Tax Withholding from Pay	-\$551	-\$580
Minus After-Tax Contributions to Other Savings	-\$0	-\$100
Spendable Pay	\$1,349	\$1,320
Before-Tax Advantage	\$29	\$0

² For illustrative purposes only. This hypothetical illustration assumes a married participant earning \$2,000 a month in regular pay who contributes \$100 a month in the Plan. It also assumes one withholding allowance and accounts for estimated FICA tax withholding.



THE FUNDAMENTALS:

WHO YOU ARE CAN DETERMINE HOW YOU INVEST

Effective retirement planning is more than picking the funds with the best performance over the past year. The investment options you choose will depend on your unique situation. How you should invest can be a complex picture with multiple variables, but it all starts with two fundamental concepts: your life circumstances and your investor type.

Your Life Circumstances – Do you have the time, motivation and confidence to research investment options on your own?

Your Investor Type – How much risk are you willing to tolerate based on your age, your retirement goals and your financial situation? In other words, are you a conservative, moderate or aggressive investor?

STEP 1:

Determining Your Investor Type

How comfortable are you with risk? Knowing whether you're a conservative, moderate or aggressive investor will help clarify which investment options are right for you. Your answers to the following statements can help determine your specific investor type.

1. I am a knowledgeable investor who understands the trade-off between risk and return. I am willing to accept a greater degree of risk for potentially higher returns.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

2. I am willing to invest on a long-term basis.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

3. If one of my investments dropped 20% in value over six months due to stock market fluctuations, I would hold on to that investment, expecting it to recover its value.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

4. I have savings vehicles other than this Plan that make me feel secure about my financial future.

Strongly Disagree 1 2 3 4 5 **Strongly Agree**

HOW DID YOU SCORE?

4-8 points: Conservative

You probably seek safety and stability.

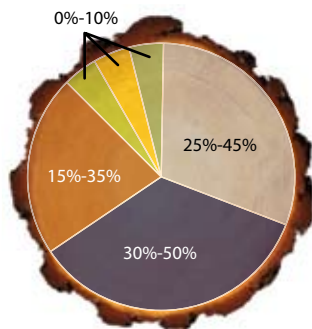
9-14 points: Moderate

You most likely want a balance between lower- and higher-risk investments and are comfortable with some volatility.

15-20 points: Aggressive

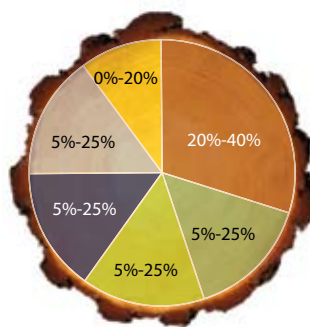
You are probably comfortable with higher risk for potentially higher returns.

CHOOSING YOUR RETIREMENT PLANNING STRATEGY



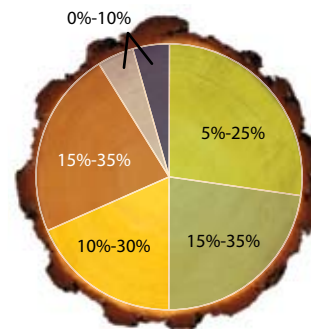
Conservative

■ Bonds
■ Mid-Cap Stocks



Moderate

■ Cash Equivalents
■ Small-Cap Stocks



Aggressive

■ Large-Cap Stocks
■ International Stocks

Your Plan offers retirement planning that gives you the flexibility to build a portfolio that fits your goals and priorities.

Diversify Your Portfolio – The above sample portfolios demonstrate how contributions could be invested in different asset classes. To further reduce risk and diversify the portfolio, each asset class percentage may consist of one or more different investments. A diversified portfolio can potentially help you reduce risk by spreading your contributions among different asset classes. The theory is that while you may experience a decrease in one investment's performance, it is unlikely that all of your investments will decrease at the same time because they are diversified into several different investment types. The above sample portfolio allocations and the fund fact sheets can help you with selecting your investments. These hypothetical portfolios provide sample allocation models to illustrate possible investment portfolio allocations that represent an investment strategy based on risk. They are not intended as financial advice.

Build Your Portfolio – You can design your own investment strategy and research and select the investment options that fit that strategy using the tools available within your Plan. For more information on each fund, including investment objectives, asset allocation, operating expenses and holdings, visit the Plan Web site.¹

State of Tennessee 401(k) and 457 Deferred Compensation Plans Features & Highlights

The State of Tennessee 401(k) and 457 Deferred Compensation Plans are powerful tools to help you reach your retirement dreams. As a supplement to other retirement benefits or savings that you may have, these voluntary Plans allow you to save and invest extra money for retirement... tax-deferred!

Not only will you defer taxes immediately, you may build extra savings consistently and automatically, have a variety of investment options to select from, and learn more about saving and investing for your financial future.

Read these highlights to learn more about your Plans, and how simple it is to enroll.

Getting Started

What is a 401(k) plan?

A 401(k) plan is a retirement savings plan designed to allow eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a voluntary salary contribution. Employee and employer contributions and any earnings on contributions are tax-deferred until money is withdrawn. Distributions are usually taken at retirement when many participants are typically receiving less income, and may be in a lower income tax bracket than while working. Distributions are subject to ordinary income tax, and if taken before age 59½ are subject to a 10% early withdrawal penalty.

What is a 457 deferred compensation plan?

A governmental 457(b) deferred compensation plan (457 plan)¹ is a retirement savings plan that allows eligible employees to supplement any existing retirement and pension benefits by saving and investing before-tax dollars through a voluntary salary contribution. Contributions and

any earnings on contributions are tax-deferred until money is withdrawn. Distributions are usually taken at retirement when many participants are typically receiving less income, and may be in a lower income tax bracket than while working. Distributions are subject to ordinary income tax.

Why should I participate in the Plans?

You may want to participate if you are interested in saving and investing additional money for retirement and/or reducing the amount of current federal income tax you pay each year. Your State of Tennessee 401(k) and 457 Deferred Compensation Plans can be excellent tools to help make your future more secure.

You may also qualify for a federal income tax credit by participating. For more information about this tax credit, please contact your Great-West Retirement Services representative.

Is there any reason why I should not participate in the Plans?

Participating may not be advantageous if you are experiencing financial difficulties, have excessive debt, do not have an adequate emergency fund (typically in an easy-to-access account), or if you expect to be in a higher tax bracket during your retirement.

Who is eligible to enroll?

All current employees of the State of Tennessee, the University of Tennessee, and the Tennessee Board of Regents, are immediately eligible to participate in the 401(k) and 457 Plans.

Is there an employer match?

The employer may match your contributions up to \$40 per month into the 401(k) plan. Availability of the match is subject to funds being appropriated each year. In general, employees who are actively contributing to the

¹ All references to the 457 plan are to a governmental 457(b) plan.

401(k) plan and who are eligible to participate in the TCRS or the Optional Retirement Program will be eligible to receive matching contributions. Contact your personnel office or your campus resource office for current information on employer contributions.

How do I enroll?

Complete the appropriate enrollment forms indicating the amount you wish to contribute, your investment option selection(s), and a beneficiary designation(s). Please return the form(s) to your Great-West Nashville office, University of Tennessee or TBR campus resource office.

What are the 457 contribution limits?

In 2007, the maximum contribution amount to the 457 Plan is 100% of your includable compensation, less any mandatory before-tax contributions to a governmental pension plan, or \$15,500, whichever is less. It may be indexed in \$500 increments after 2007. These limits may be reduced depending on the terms of your Plan.

Participants in the 457 Plan have two different opportunities to catch-up and contribute more if they meet certain requirements. "Standard" catch-up allows participants in the three calendar years prior to normal retirement age to contribute more (up to double the annual contribution limit—\$31,000 in 2007) into the 457 Plan. The additional amount that you may be able to contribute under the "Standard" catch-up option will depend upon the amounts that you were able to contribute in previous years but did not. Also, participants turning age 50 or older in 2007 may contribute an additional \$5,000. You may not use the "Standard" catch-up provision and the Age 50+ catch-up provision in the same year.

What are the 401(k) contribution limits?

In 2007, the maximum contribution amount is 100% of your compensation, less any mandatory before-tax contributions to a governmental pension plan, or \$15,500, whichever is less. It may be indexed in \$500 increments after 2007.

Participants turning age 50 or older in 2007 may contribute an additional \$5,000.

Am I allowed to participate in both plans?

Employees may participate in both the 457 and the 401(k) plans; however the employer match is limited to the 401(k). Limits are applied to University of Tennessee and Tennessee Board of Regents employees who participate in other plans. Please contact your Great-West Retirement Services representative for more information.

What are my investment options?

A wide array of core investment options is available through your Plans. Each option is explained in further detail in your Plans' fund data sheets. Investment option information is also available through the state's Web site at www.treasury.state.tn.us/dc, and KeyTalk[®], toll free at (800) 922-7772, option 2. The Web site and KeyTalk[®] are available to you 24 hours a day, 7 days a week.²

In addition to the core investment options, a Self-Directed Brokerage (SDB) account is available. The SDB account allows you to select from numerous mutual funds for additional fees. These securities are not offered through GWFS Equities, Inc. The SDB account is intended for knowledgeable investors who acknowledge and understand the risks associated with the investments contained in the SDB account.

Managing Your Accounts

How do I keep track of my accounts?

Great-West Retirement Services will mail you a quarterly account statement showing your account balances and activity. You can also check your account balances and move money

2 Transfer requests made via the Web site or KeyTalk[®] received on business days prior to close of the New York Stock Exchange (4:00 p.m. Eastern Time or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment option selected. Access to KeyTalk[®] and the Web site may be limited or unavailable during periods of peak demand, market volatility, systems upgrades and maintenance, or other reasons.

between investment options on the Web site at www.treasury.state.tn.us/dc or by calling KeyTalk[®] at (800) 922-7772, option 1.² You will also receive quarterly statements on your SDB account from your SDB provider. The SDB provider will send you a monthly statement if you have account activity.

How do I make investment option changes?

Use your Personal Identification Number (PIN)³ and Username to access the Web site or you can use your Social Security Number and PIN to access KeyTalk[®].²

You can move all or a portion of your existing balances between investment options (subject to Plan rules) and change how your future payroll contributions are invested.

How do I make contribution changes to the Plans?

Fill out a Salary Reduction Agreement available from your employer's web site, www.treasury.state.tn.us/dc, or your Great-West Retirement Services representative, at (800)-922-7772, option 1.

Rollovers

May I roll over my account from my former employer's plan?

Yes. But only approved balances from an eligible governmental 457(b) or 401(k) plan or an Individual Retirement Account (IRA) may be rolled over to the 457 or 401(k) Plans depending on the terms of your Plan. Distributions from these plans, other than a 457 plan rolling into the 457 Plan, may be subject to the 10% early withdrawal federal tax penalty. Please check with your Great-West Retirement Services representative regarding any applicable fees on the rollover account.

³ The account owner is responsible for keeping the assigned PIN confidential. Please contact Great-West Retirement Services immediately if you suspect any unauthorized use.

May I leave my accounts with the State of Tennessee or roll them over if I leave my current employment?

Yes. You can leave your entire account balance in your State of Tennessee Deferred Compensation Plan account. Compare fees, commissions, trading expenses and other transaction costs before making a decision. If you sever employment with the State of Tennessee, you may roll over your account balances to another eligible governmental 457(b), 401(k), 403(b) or 401(a) plan if your new employer's plan accepts such rollovers. You may also roll over your account balances to an IRA.

Please keep in mind that if you roll over your 457 Plan balance to a 401(k), 403(b) or 401(a) plan or an IRA, distributions taken before age 59½ may also be subject to the 10% early withdrawal federal tax penalty. Please contact your Great-West Retirement Services representative for more information.

Vesting

When am I vested in the 457 & 401(k) Plans?

Vesting refers to the percentage of your account you are entitled to receive from the Plans upon the occurrence of a distributable event. Your contributions to the 457 & 401(k) Plans, including the 401(k) employer match, and any earnings they generate are 100% vested (including any rollovers from previous employers).

Distributions

When can I receive a distribution from my accounts?

Qualifying distribution events are as follows:

- retirement;
- permanent disability;
- financial hardship (401(k)) or unforeseeable emergency (457 Plan) (as defined by the Internal Revenue Code and your Plan's provisions);
- severance of employment (as defined by the Internal Revenue Code);

- attainment of age 59½ (401(k) Plan only);
- death (your beneficiary receives your benefits);

Ordinary income tax will apply to each distribution. Distributions from the 401(k) Plan received prior to age 59½ may also be assessed a 10% early withdrawal federal tax penalty.

What are my distribution options?

- 1) Leave the value of your account in the Plan until a future date;
- 2) Receive:
 - periodic payments;
 - partial lump sum
 - a lump sum;
- 3) Roll over your account balance to an eligible governmental 457(b), 401(k), 403(b) or 401(a) plan or to an IRA.

What happens to my accounts when I die?

Your designated beneficiary(ies) will receive the remaining value of your accounts, if any. Your beneficiary(ies) must contact a Great-West Retirement Services representative to request a distribution.

Fees

Are there any recordkeeping or administrative fees to participate in the Plans?

The program's administrative costs are paid by participants. For employees enrolling in the 401(k) plan, the cost of administration is currently 0.25% of assets (25 basis points) annually or \$3 per quarter, whichever is greater. For employees enrolling in the 457 plan, the cost of administration is currently 0.25% of assets (25 basis points) annually. Administrative costs for the program are subject to change in the future. Some of the investment providers assist in paying record keeping costs.

Are there any fees for the investment options?

Each investment option has an investment management fee that varies by investment option. These fees are deducted by each investment option's management company before the daily price or performance is calculated. Fees pay for trading individual securities in the underlying investment options and other management expenses.

There are additional quarterly fees and/or transaction fees to participate in the Self-Directed Brokerage Option. Funds may impose redemption fees on certain transfers, redemptions or exchanges resulting from presumed market timing.

Loans

May I take a loan from my 401(k) Plan account?

Your 401(k) Plan allows you to borrow the lesser of \$50,000 or 50% of your total account balance. The minimum loan amount is \$2,000, and you have up to 5 years to repay your loan — up to 15 years if the money is used to purchase your primary residence. There is a \$50 origination fee for each loan, plus an ongoing monthly fee of \$2.

Taxes

How does my participation in the Plans affect my taxes?

Because your contributions are taken out of your paycheck before taxes are calculated, you pay less in current income tax. You do not report any current earnings on your Deferred Compensation Plan on your current income tax return. Your Deferred Compensation Plan is tax-deferred until you withdraw money, usually at retirement.

Distributions from the Plan are taxable as ordinary income during the years in which they are distributed or made available to you or to your beneficiary(ies). Distributions from the 401(k) Plan received prior to age 59½ may also be subject to a 10% early withdrawal federal tax penalty.

Investment Assistance

Can I get help with my investment decisions?

Employees of Great-West Retirement Services and the State of Tennessee cannot give investment advice. There are financial calculators and tools on the Web site that can help you determine which investment options might be best for you if you would like to construct your Plan account yourself.

How do I get more information?

Visit the Web site at www.treasury.state.tn.us/dc or call KeyTalk[®], toll free at (800) 922-7772², option 1,² for more information. The Web site provides information regarding your Plan, financial education information, financial calculators and other tools to help you manage your account.

Call or visit your local Great-West Retirement Services office at:

545 Mainstream Drive Suite 407
Nashville, TN 37228
(800) 922-7772, option 2

Securities (except for the Self-Directed Brokerage (SDB) option), when offered, are offered through GWFS Equities, Inc., a wholly owned subsidiary of Great-West Life & Annuity Insurance Company. Contact your Plan Administrator for more information. Securities available through the Self-Directed Brokerage Account are not offered by GWFS Equities, Inc.

Investment options may be offered through mutual funds, collective trust funds, and/or a group fixed and variable deferred annuity issued by Great-West Life & Annuity Insurance Company.

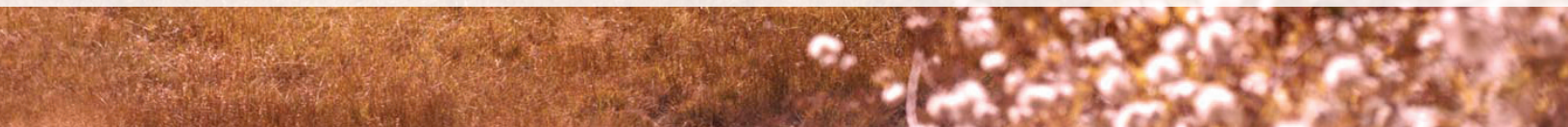
Great-West Retirement Services refers to products and services provided by Great-West Life & Annuity Insurance Company and its subsidiaries and affiliates.

Your Plan may utilize one or more of the following annuity policy form numbers: GDC 177, GTSA 179, GTSA 279, GDCA 180, GDCA 184, GTSMF 1-84, GDCMF 1-84, GTSA 184, GATSA 184, GATSMF 184, QGAC 985, QGAC-CDSC 685, QGP 685, QGAC 1289, QGAC 1089, QGAC 490 FFSII, GDCMF 190, GDC 990 FFSII, GTDAMF 92 ER, GTDAMF 92 VOL, GTDAGF 92 VOL, GTDAGF 92 ER, QGAC 1-94, STAC 1-95, GFF 1-97, GPF 1-00, GFAC 1-02, GFVAC 1-02, GFAC 1-05, GFVAC 1-05.

Great-West Retirement Services[®] and KeyTalk[®] are service marks of Great-West Life & Annuity Insurance Company. All rights reserved.
Not intended for use in New York.
Form# 98986-01/02PH (4/3/2007)



When nurtured and provided with the right nutrients, a maple tree can live to be 300 years old. That's a long time, and although it's rare for a person to live longer than 100 years, the average life span for human beings is on the rise. Will you have enough savings to see you through your entire retirement?



Cut this card out and keep for your reference
Talk to a registered representative
by calling 1-800-922-7772.

Web site Visit www.treasury.state.tn.us/dc

